

Natural Resource &
Corporation Tax Division
Sam W. Mitchell Building

Montana Department of
REVENUE

P. O. Box 202701
Helena, Montana 59620-2701

July 23, 1998

David S. Guzy, Chief
Rules and Publications Staff
Royalty Management Program
Minerals Management Service
P. O. Box 25165, MS 3021
Denver, CO 80225-0165



RE: Establishing Oil Value for Royalty Due on Federal Leases

Dear Mr. Guzy:

The State of Montana offers the following comments on the proposed rule reference above. The Minerals Management Service (MMS) is to be commended for developing new regulations that balance the interests of all parties involved in extracting oil from federal lands. With the regulation in this form, MMS has maintained accountability and revenue protection for the public without penalizing the petroleum industry. While we understand industry's concerns regarding transportation in the Gulf, it must be noted that royalty rates are 16% on those leases. In Montana, royalty rates are generally less than 5%. No added costs or risk should be passed on to the federal government where royalty rates are so low.

MMS' efforts to consult with stakeholders have been extensive. MMS began this effort in December 1995, has sponsored numerous public workshops, and has published proposed rules on several occasions. MMS has conscientiously evaluated the comments received from all parties and made appropriate changes to the proposed regulations. MMS has been open to industry's concerns and has made substantial efforts to accommodate industry. As a result, MMS has incorporated compromises into the latest proposal which are major concessions to industry. At this time, Montana believes that the rule is ready to and should be finalized.

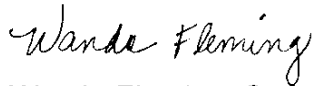
Specifically, Montana agrees that oil sold or exchanged at arm's-length (even if, after a series of affiliated transactions) before refining should, generally, be valued based on the gross proceeds accruing under the arm's-length sale. For oil that is not sold under these conditions, Montana finds the proposed rules for the Rocky Mountain Area acceptable. We support the new/expanded definitions of an affiliate, exchange agreements and gross proceeds. Specifically, we oppose industries' recommendation that partnerships and joint ventures be removed from the definition of affiliates.

We support §206.107 as it is currently written. It has been suggested that industry would prefer that MMS valuation decisions be binding; that is, not subject to audit. Montana

cannot support such a change. Valuation decisions are often based upon the information that industry voluntarily provides; this information may or may not present the whole picture. Therefore, any valuation procedure must be audited for accuracy.

We appreciate being given the opportunity to comment on this rule and urge closure on this issue.

Sincerely,

A handwritten signature in cursive script that reads "Wanda Fleming".

Wanda Fleming, Supervisor
Federal Royalty Program